



# Annual Financial Report Fiscal Year 2016

**GULF COAST ECOSYSTEM RESTORATION COUNCIL**  
**ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR 2016**

*This Annual Financial Report for FISCAL YEAR 2016 provides the financial and performance information for the Gulf Coast Ecosystem Restoration Council (Council), enabling the President, Congress, and the American people to assess the Council's performance as provided by the requirements of the:*

- ◆ *Improper Payments Information Act (IPIA) of 2002 as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA);*
- ◆ *Accountability of Tax Dollars Act (ATDA) of 2002;*
- ◆ *Reports Consolidation Act of 2000;*
- ◆ *Government Management Reform Act of 1994;*
- ◆ *Government Performance and Results Act (GPRA) of 1993 as amended by the Government Performance and Results Act Modernization Act (GPRAMA) of 2010;*
- ◆ *Chief Financial Officers (CFO) Act of 1990; and*
- ◆ *Federal Managers' Financial Integrity Act (FMFIA) of 1982.*

*This report is available on the internet at <http://www.restorethegulf.gov>*

Cover photos courtesy of: National Oceanic and Atmospheric Administration

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**MESSAGE FROM THE EXECUTIVE DIRECTOR  
GULF COAST ECOSYSTEM RESTORATION COUNCIL  
NOVEMBER 15, 2016**

I am pleased to submit the Annual Financial Report (AFR) for the Gulf Coast Ecosystem Restoration Council (Council) for fiscal year 2016. The AFR provides an assessment of the Council's financial information and outlines the Council's administrative accomplishments in implementing the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act).

The RESTORE Act dedicates 80% of all Clean Water Act administrative and civil penalties arising from the *Deepwater Horizon* (DWH) oil spill to the Gulf Coast Restoration Trust Fund (Trust Fund) and established the Council as a new independent entity within the Federal government.

The Council was formally established in 2012 with a clear mission to implement a long-term, comprehensive plan for the ecological and economic recovery of the Gulf Coast region. The Council, consisting of the five Gulf Coast states (States) directly impacted by the DWH oil spill and six Federal agencies, is committed to working with Gulf communities and partners to invest in actions, projects, and programs that will ensure the long-term environmental health and economic prosperity of the Gulf Coast region.

Over the past four years, we stood up the Council, worked with tens of thousands of citizens to develop and update a regional restoration plan, and established the administrative and operational infrastructure to allow us to efficiently and effectively disburse funds available from the Trust Fund.

In accordance with guidance from Office of Management and Budget (OMB), I have determined, to the best of my knowledge and belief, that the performance and financial data included in this report are complete and reliable, and that the internal controls over the effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations are operating effectively.

In fiscal year 2016, the Council continued to advance its administrative functions and operations, including the implementation of its grants management system, the completion and adoption its first Enterprise Risk Assessment, and signing its first grants and interagency agreements for project and programs. In 2016 the Council finalized its policy for implementing local contracting preferences, and initiated a suite of internal controls and administrative policies and procedures to ensure that the Council diligently exercises its fiduciary responsibilities with respect to Trust Fund expenditures and other responsibilities under the RESTORE Act. Additionally, in fiscal year 2016, the Council developed its Tribal Communication, Collaboration, Coordination and Consultation Policy in conjunction with federally recognized Indian tribes. The Council expects to finalize and adopt this policy in fiscal year 2017.

As the first annual installment of funding from the Consent Decree becomes available from the Trust Fund in fiscal year 2017, the Council will continue its grant-making and other financial assistance operations, finalize the update of the Comprehensive Plan, and begin the process of updating the Funded Priorities List (FPL) with additional projects and programs.

The Council looks forward to serving the people of the Gulf through its efforts to carry out comprehensive ecosystem restoration to preserve and enhance long-term environmental health and economic prosperity of the Gulf Coast region.

A handwritten signature in black ink, appearing to read "Justin R. Ehrenwerth", with a long horizontal line extending to the right.

Justin R. Ehrenwerth  
Executive Director  
Gulf Coast Ecosystem Restoration Council

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

### **OVERVIEW**

The Agency Financial Report (AFR) presents financial information of the Gulf Coast Ecosystem Restoration Council (Council) relative to our vital mission and stewardship of the resources entrusted to us under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act or Act) (codified at 33 U.S.C § 1321(t) and note). The AFR also highlights our priorities, accomplishments, and challenges in implementing our programs.

### **Background**

Building on prior efforts to help ensure the long-term restoration and recovery of the Gulf Coast region and spurred by the 2010 *Deepwater Horizon* (DWH) oil spill, in 2012 Congress passed and the president signed the *Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012* (RESTORE Act or Act) (codified at 33 U.S.C § 1321(t) and note).

The Act provides for planning and resources for a regional approach to the long-term health of the natural ecosystems and economy of the Gulf Coast region. The Act dedicates 80% of all administrative and civil penalties paid under the Clean Water Act (CWA), after the date of enactment, by responsible parties in connection with the DWH oil spill, to the Gulf Coast Restoration Trust Fund (Trust Fund) for ecosystem restoration, economic recovery, and tourism promotion in the Gulf Coast region.

Resolution of civil claims against entities held responsible for the DWH oil spill has to date yielded more than \$20 billion. Of this amount, the Act will provide \$5.33 billion (80% of \$6.659 billion) (plus interest) to the Trust Fund, based on CWA penalties of \$1 billion (plus interest) from Transocean Deepwater Inc. and related entities; \$159.5 million from Anadarko Petroleum Corporation; and \$5.5 billion (plus interest) from BP. The \$4.4 billion from BP (80% of \$5.5 billion), plus interest, will be payable into the Trust Fund over a fifteen-year period pursuant to a consent decree among BP, the States and the United States finalized in April, 2016 (Consent Decree). In addition to establishing the Trust Fund, the RESTORE Act established the Council to help restore the ecosystem and economy of the Gulf Coast region by developing and implementing a Comprehensive Plan for Gulf Coast restoration as well as carrying out other responsibilities.

The Council is comprised of the Governors of Alabama, Florida, Louisiana, Mississippi and Texas (States), the Secretaries of the U.S. Departments of the Interior, the Army, Commerce, Agriculture, and Homeland Security, and the Administrator of the U.S. Environmental

Protection Agency. The Secretary of Agriculture currently serves as the Council's Chairperson.

Pursuant to the RESTORE Act, the Council oversees the expenditure of 60% of the funds in the Trust Fund. 30% is administered under the Council-Selected Restoration Component according to the Comprehensive Plan completed by the Council in 2013. In December 2015, the Council approved and adopted the initial Funded Priorities List (FPL) of initial projects to be funded and prioritized by the Council and based on the Comprehensive Plan.

The remaining 30% is administered under the Spill Impact Component and allocated to the States according to a formula and regulation approved by the Council in December 2015, and will be spent according to individual State Expenditure Plans (SEPs) to be submitted to the Council by the States. The SEPs must contribute to the overall ecological and economic recovery of the Gulf and adhere to four criteria set forth in the Act, and will be subject to approval by the Council Chairperson in accordance with the Act.

Pursuant to the requirements of the Act, in fiscal year 2016, the Council began working on its first update to the Comprehensive Plan, and is currently soliciting public comment on the draft update. The Comprehensive Plan update will include the Council's initial Ten-Year Funding Strategy, a description required by the Act of the Council's projected allocation of funds to be made available from the Trust Fund over the next ten years.

In August 2016, the Council amended the initial FPL to include the implementation and funding of a \$4.68 million Florida restoration project, after completing a review of the project's environmental compliance documentation pursuant to the National Environmental Policy Act (NEPA) and other federal laws.

In fiscal year 2016, the Council advanced its administrative functions and operations. The on-board staff increased by 7 members in support of the increasing responsibilities arising from the approval of the first FPL, the publication of the Final Rule for the Spill Impact Program, the update to the Comprehensive Plan, and the issuance of the first grants and interagency agreements (IAAs) for projects and programs.

In December 2015, the Council completed implementation of its Restoration Assistance and Awards Management System (RAAMS), a web-based grants management system based on an existing off-the-shelf system and customized for the Council's operations. The RAAMS system is configured to meet the specific requirements of the Act and provides a robust "cradle-to-grave" automated system. In addition to robust post-award management features, this system will collect a broad array of metrics on an individual project basis,

enabling the Council to develop quantifiable outcomes for its efforts in Gulf-wide ecosystem restoration.

In July 2016, the Council completed and adopted its first enterprise risk assessment and a suite of internal controls and administrative policies and procedures. The assessment, controls and procedures were instituted in order to ensure that the Council diligently exercises its fiduciary responsibilities with respect to Trust Fund expenditures and other responsibilities under the Act.

In July 2016, the Council also finalized its policy for implementing the local contracting preferences requirement under the Act. Additionally, in fiscal year 2016, the Council developed its Tribal Communication, Collaboration, Coordination and Consultation Policy in collaboration with federally recognized Indian tribes. The Council expects to finalize and adopt this policy in fiscal year 2017.

In fiscal year 2017, the Council will continue its grant-making and other financial assistance operations, will finalize the update of the Comprehensive Plan, and will begin the process of updating the FPL as the first annual installment of funding from the Consent Decree becomes available from the Trust Fund.

## MISSION AND ORGANIZATION

The Council is charged with helping to restore the ecosystem and economy of the Gulf Coast region by developing and overseeing Trust Fund expenditures in implementation of the Comprehensive Plan and approval of SEPs, and carrying out other responsibilities. In March 2016, the president announced that the Secretary of Agriculture was succeeding the Secretary of Commerce as the Chairperson of the Council. The Council includes the Governors of the States of Alabama, Florida, Louisiana, Mississippi and Texas, and the Secretaries of the U.S. Departments of Agriculture, the Army, Commerce, Homeland Security and the Interior, and the Administrator of the U.S. Environmental Protection Agency.

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**Chair**  
**Department of Agriculture**  
Thomas Vilsack  
Secretary

State of Alabama  
Robert Bentley  
Governor

Department of the Army  
Eric Fanning  
Secretary

State of Florida  
Rick Scott  
Governor

Department of Commerce  
Penny Pritzker  
Secretary

State of Louisiana  
John Bel Edwards  
Governor

Environmental Protection Agency  
Gina McCarthy  
Administrator

State of Mississippi  
Phil Bryant  
Governor

Department of Homeland Security  
Jeh Johnson  
Secretary

State of Texas  
Greg Abbott  
Governor

Department of the Interior  
Sally Jewell  
Secretary

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## DISCUSSION OF PERFORMANCE

The Comprehensive Plan is the Council's Strategic Plan, and addresses the goals and objectives of the Council to achieve comprehensive ecosystem restoration in the Gulf of Mexico (Gulf) Coast region. The Gulf region is vital to our nation and our economy, providing valuable energy resources, abundant seafood, extraordinary beaches and recreational activities, and a rich natural and cultural heritage. Its waters and coasts are home to one of the most diverse natural environments in the world – including over 15,000 species of sea life and millions of migratory birds. The Gulf has endured catastrophes, including major hurricanes such as Katrina, Rita, Gustav and Ike in the last decade alone. The region has also long experienced the loss of critical wetland habitats, erosion of barrier islands, imperiled fisheries, water quality degradation and significant coastal land loss. More recently, the health of the region's ecosystem was significantly affected by the *Deepwater Horizon* oil spill. As a result of the oil spill, the Council has been given the great responsibility of helping to address ecosystem challenges across the Gulf.

Pursuant to the RESTORE Act, the Council approved the initial Comprehensive Plan in August 2013, which outlines an overarching framework for an integrated and coordinated approach for region-wide Gulf Coast restoration and includes the following five goals:

### Goals

1. ***Restore and Conserve Habitat*** – Restore and conserve the health, diversity, and resilience of key coastal, estuarine, and marine habitats.
2. ***Restore Water Quality*** – Restore and protect water quality of the Gulf Coast region's fresh, estuarine, and marine waters.
3. ***Replenish and Protect Living Coastal and Marine Resources*** – Restore and protect healthy, diverse, and sustainable living coastal and marine resources.
4. ***Enhance Community Resilience*** – Build upon and sustain communities with capacity to adapt to short- and long-term changes.
5. ***Restore and Revitalize the Gulf Economy*** – Enhance the sustainability and resiliency of the Gulf economy.

The fifth goal focuses on reviving and supporting a sustainable Gulf economy to ensure that those expenditures by the Gulf Coast States authorized in the RESTORE Act under the Direct Component (administered by the Department of the Treasury) and the Spill Impact Component can be considered in the context of comprehensive restoration. To achieve all five goals, the Council will support ecosystem restoration that can enhance local communities by giving people desirable places to live, work, and play, while creating opportunities for new and existing businesses of all sizes, especially those dependent on

natural resources. In addition, the Council will support ecosystem restoration that builds local workforce capacity.

The Council will work to coordinate restoration activities under the Council-Selected Restoration Component and the Spill Impact Component to further the goals. While the Council does not have direct involvement in the activities undertaken by the States or local governments through the Direct Component, the Council will strive, as appropriate, to coordinate its work with those activities. In addition, the Council will actively coordinate with the Gulf Coast Ecosystem Restoration Science Program (administered by NOAA) and the Centers of Excellence Research Grants Program (administered by Treasury).

## **Objectives**

The Council will select and fund projects and programs that restore and protect the natural resources, ecosystems, water quality, fisheries, marine and wildlife habitats, beaches, and coastal wetlands of the Gulf Coast region. Projects and programs not within the scope of the following Objectives for ecosystem restoration will not be funded under the Council-Selected Restoration Component.

1. **Restore, Enhance, and Protect Habitats** – Restore, enhance and protect the extent, functionality, resiliency, and sustainability of coastal, freshwater, estuarine, wildlife, and marine habitats.
2. **Restore, Improve, and Protect Water Resources** – Restore, improve, and protect the Gulf Coast region’s fresh, estuarine, and marine water resources by reducing or treating nutrient and pollutant loading; and improving the management of freshwater flows, discharges to and withdrawals from critical systems.
3. **Protect and Restore Living Coastal and Marine Resources** – Restore and protect healthy, diverse, and sustainable living coastal and marine resources including finfish, shellfish, birds, mammals, reptiles, coral, and deep benthic communities.
4. **Restore and Enhance Natural Processes and Shorelines** – Restore and enhance ecosystem resilience, sustainability, and natural defenses through the restoration of natural coastal, estuarine, and riverine processes, and/or the restoration of natural shorelines.
5. **Promote Community Resilience** – Build and sustain Gulf Coast communities’ capacity to adapt to short- and long-term natural and man-made hazards, particularly increased flood risks associated with sea-level rise and environmental stressors.

Promote ecosystem restoration that enhances community resilience through the re-establishment of non-structural, natural buffers against storms and flooding.

6. **Promote Natural Resource Stewardship and Environmental Education** – Promote and enhance natural resource stewardship through environmental education efforts that include formal and informal educational opportunities, professional development and training, communication, and actions for all ages.
7. **Improve Science-Based Decision-Making Processes** – Improve science-based decision-making processes used by the Council.

In the first quarter of fiscal year 2016, the Council finalized, approved and adopted its first FPL using a process that emphasized public input, transparency, coordination with other restoration programs, and rigorous science review.

The Initial FPL includes \$156.6 million for restoration activities such as hydrologic restoration, land conservation, and planning for large-scale restoration projects. The Council reserved approximately \$26.6 million of additional funding for potential future projects.

Concurrently, in the first quarter of fiscal year 2016, the Council approved and adopted the Spill Impact Component rule, establishing the formula for allocation of Spill Impact Component funds to the States and enabling the States to submit SEPs to the Council for approval. After approval of an SEP, the State will then submit grant applications in the RAAMS system to fund individual restoration projects contained in the SEP. In fiscal year 2015, the Council approved a Planning SEP for Florida. In fiscal year 2016, the Council approved Planning SEPs for Mississippi and Texas.

In May, 2016, the Council signed its first Council-Selected Restoration Component federal IAA award, to the Department of Interior for the \$500,000 first stage of an \$8 million Youth Conservation Corps Gulf-wide habitat restoration project. In September, 2016 the Council completed its first Council-Selected Restoration Component State grant award, to Louisiana for a \$7.26 million West Grand Terre Beach restoration project.

Since the approval of the Initial Comprehensive Plan in August 2013 there have been important developments that warrant an update of the Council's Comprehensive Plan. Specifically, the resolution of civil claims against BP has provided clarity regarding the amount and timing of funds available to the Council enabling the development of a Ten-Year Funding Strategy, as required by the RESTORE Act. In addition, the Council gained valuable knowledge during the process of developing and approving the first set of foundational restoration activities in its Initial FPL. In February 2016, the Council

decided to capture this valuable information through an intensive review of the FPL including an internal Council review process and public feedback components. Following completion of these reviews, the Council decided at its May 2016 Steering Committee meeting to move forward with updating its Comprehensive Plan which is intended to improve future actions and decisions by:

- Ensuring consistency with the Priority Criteria referenced in the Act;
- Reinforcing the Council's goals, objectives and commitments;
- Setting forth a Ten-Year Funding Strategy, including a Council vision for ecosystem restoration;
- Increasing collaboration among Council members and partner restoration programs;
- Refining the process for ensuring that the Council's decisions are informed by the best available science; and
- Improving the efficiency, effectiveness and transparency of Council actions.

Following an extensive public feedback effort, the Council will vote on the Comprehensive Plan update on December 6, 2016.

Additional detailed performance discussion will be available in the Council Annual Report to Congress, published in December 2016, and the Annual Performance Report, published concurrently with the fiscal year 2018 President's Budget Request in February 2017.

## **ANALYSIS OF THE FINANCIAL STATEMENTS**

To best serve the communities of the Gulf Coast region, the Council will carry out its activities to implement the Comprehensive Plan and accomplish the requirements of the RESTORE Act in an effective and efficient manner, at the minimum cost possible to maximize the dollars available for restoration projects and programs. The Council has managed its fiscal resources through a strategy of incremental growth to correspond to the development of its Council-Selected Restoration Component and the Spill Impact Component programs. Mindful of the fact that the Council must oversee projects and programs during the post-completion operations and maintenance phase (which in some cases could take as long as 20 years), the Council has forecast its administrative and operational expenses through the projected closeout of all grants. Based on the Consent Decree payment schedule, Council operations have been projected through 2040 to ensure operational costs are fiscally prudent and well managed through the life of the program. Tables 1 and 2 (below) show the 28-year operating budget from fiscal year 2013 through the projected end of the program in fiscal year 2040 (fiscal years 2021 through 2033 are not displayed).

Table 1 Operating Expense Over Life of Program (from fiscal year 2017 Budget Presentation to the Steering Committee)  
(in millions)

\$M	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY34	FY35	FY36	FY37	FY38	FY39	FY40	28 years
FTE	0	5.4	11.4	17.6	21.1	21.5	22.5	22.5	22.5	22	17	14	12	12	9	<b>TOTAL</b>
SALARIES		0.86	1.74	2.69	3.37	3.53	3.74	3.79	4.68	4.63	3.58	2.09	2.70	2.72	1.98	<b>98.02</b>
OP EXP	0.36	1.10	1.81	1.58	2.08	1.96	2.11	1.98	2.44	2.08	1.94	1.79	1.69	1.58	1.43	<b>54.54</b>
TOTAL	0.36	1.96	3.55	4.27	5.45	5.49	5.85	5.78	7.12	6.71	5.52	4.88	4.39	4.30	3.41	<b>152.56</b>

The projected total administrative expense of \$42.2 million is significantly less than the more than \$48 million that will be available from the Transocean, Anandarko and BP settlements.

Table 2 Operating Expense Categorized by Administrative and Programmatic Over Life of Program  
(from fiscal year 2017 Budget Presentation to the Steering Committee)

(in millions)

\$M	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY34	FY35	FY36	FY37	FY38	FY39	FY40	TOTAL
ADM	0.36	0.86	1.24	1.11	1.37	1.45	1.51	1.54	1.91	1.91	1.51	1.40	1.35	1.29	1.15	42.2
PROG		1.1	2.31	3.16	4.08	4.04	4.34	4.24	5.21	4.80	4.01	3.49	3.04	3.01	2.26	110.4
TOTAL	0.36	1.96	3.55	4.27	5.45	5.49	5.85	5.78	7.12	6.71	5.52	4.89	4.39	4.30	3.41	152.6

In fiscal year 2016, the Council completed the process of standing up as a self-sustaining independent Federal entity and putting its administrative foundation in place. The Council is currently engaged in administering grants and IAAs under the RAAMS system, and planning and developing its future programs.

Services provided by Council members have diminished as the Council has put in place its own personnel and funded its own administrative, financial, and financial assistance services. Table 3 presents the non-reimbursed services provided by other Federal agencies since its inception. Non-reimbursed support from other Federal agencies ended as of December 2015.

Table 3

COMPARISON OF NON-REIMBURSED SERVICES				
CATEGORY	FY 13	FY 14	FY 15	FY 16
SALARIES/BENEFITS	\$ 771,032	\$ 609,892	\$ 208,124	\$ 76,099
SALARIES: GRANT SYSTEM			\$ 182,295	\$ 26,093
TRAVEL	\$ 73,715	\$ 70,623		
WEBSITE	\$ 218,596	\$ 218,596		
WEBSITE MIGRATION		\$ 167,896		
OFFICE SPACE/EQUIP	\$ 48,847	\$ 51,109		
PUBLIC MEETINGS	\$ 16,710			
GRANT SYSTEM			\$ 337,500	\$ 75,000
MISCELLANEOUS	\$ 13,748	\$ 2,211		
TOTAL	\$ 1,142,648	\$ 1,120,327	\$ 727,919	\$ 177,192

Government accounting captures financial activities in two ways – activity is recorded in a standard general ledger in the same way a proprietary (e.g., private) entity would do so, and additionally, government budgetary data is captured. Budgetary accounts record a cost transaction at the time an obligation of the government is incurred, whereas a private sector entity would not. For example, when a contract for goods or services is signed, an obligation is recorded but there is no corresponding entry in the proprietary accounts.<sup>1</sup> When the goods or services are received, a transaction occurs in both the proprietary and budgetary accounts (the obligation is liquidated and an expense is recorded). Therefore, certain government financial statements reflect the results of operations in the same way a private entity would do so (the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position), but the Statement of Budgetary Resources reflects the budgetary activity of the entity. The upcoming discussions of costs are based on the activity recorded in the budgetary accounts.

The following charts present the Council's budgetary operating costs (obligations) for each fiscal year. Chart 1 illustrates the total cost to operate and how much was provided by Council members through non-reimbursable services. Chart 2 shows Trust-funded and non-reimbursable costs as a percentage of the total cost to operate and shows that services from other agencies originally made up 76% of the total costs to operate but has now declined to just 2%. As can be seen from the charts, the total cost to operate has also entered a more stable level. In fiscal year 2015, total operating costs equaled \$4.48 million, and fiscal year 2016 has seen a slight reduction to \$4.44 million. The Council expects to see a slight increase

<sup>1</sup> This should not be confused with accrual accounting. In accrual accounting, an expense is recorded when goods or services are received vs. cash accounting, which records an expense when the goods or services are paid for. The government uses accrual accounting to record its expenses on both the proprietary and budgetary accounts.

in operating expense in fiscal year 2017 as the last three billets are filled, and the processing of grants and IAAs continues to grow. The increase in cost from fiscal year 2013 reflects the development of the Council's administrative and programmatic infrastructure; establishment of its headquarters office in New Orleans; the development and deployment of its core administrative systems; the acquisition and deployment of its website and automated grants management system; and implementation of its grant, science, and environmental compliance programs. The charts also show that as the Council has become increasingly independent, non-reimbursable support provided by Council members has significantly decreased.

Chart 1

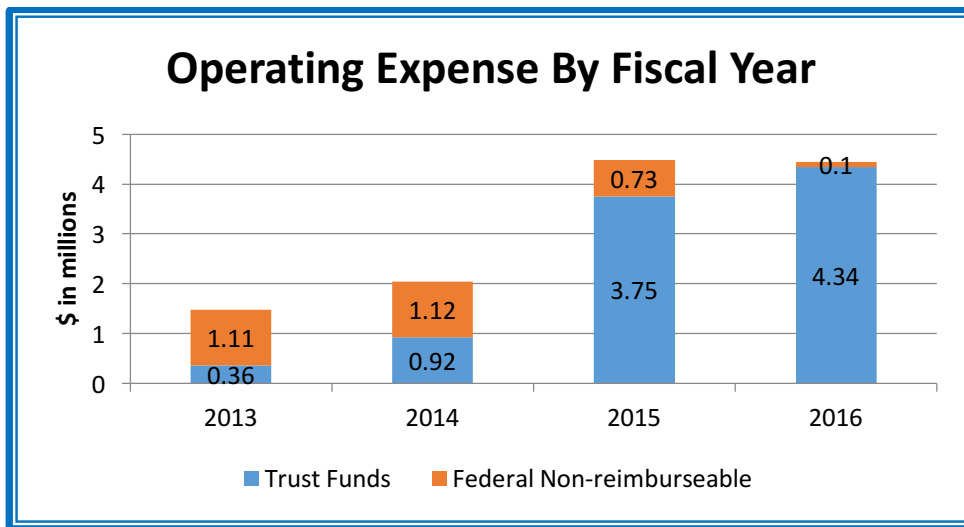


Chart 2

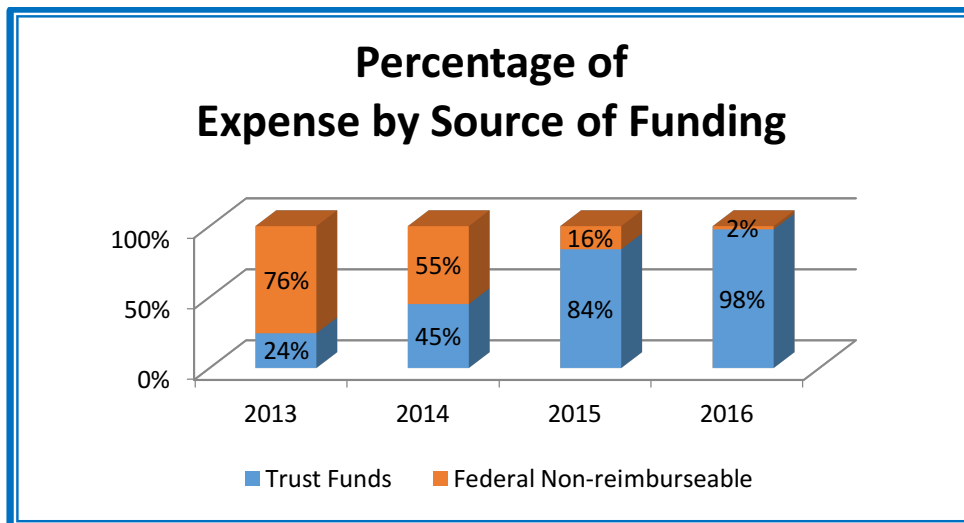


Chart 3

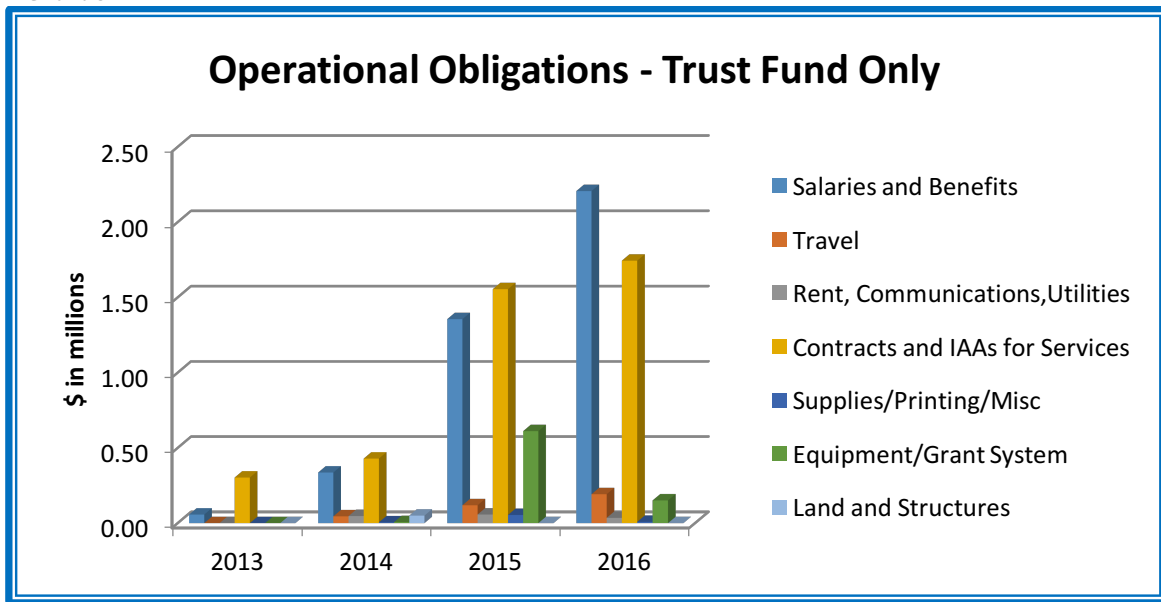


Chart 4

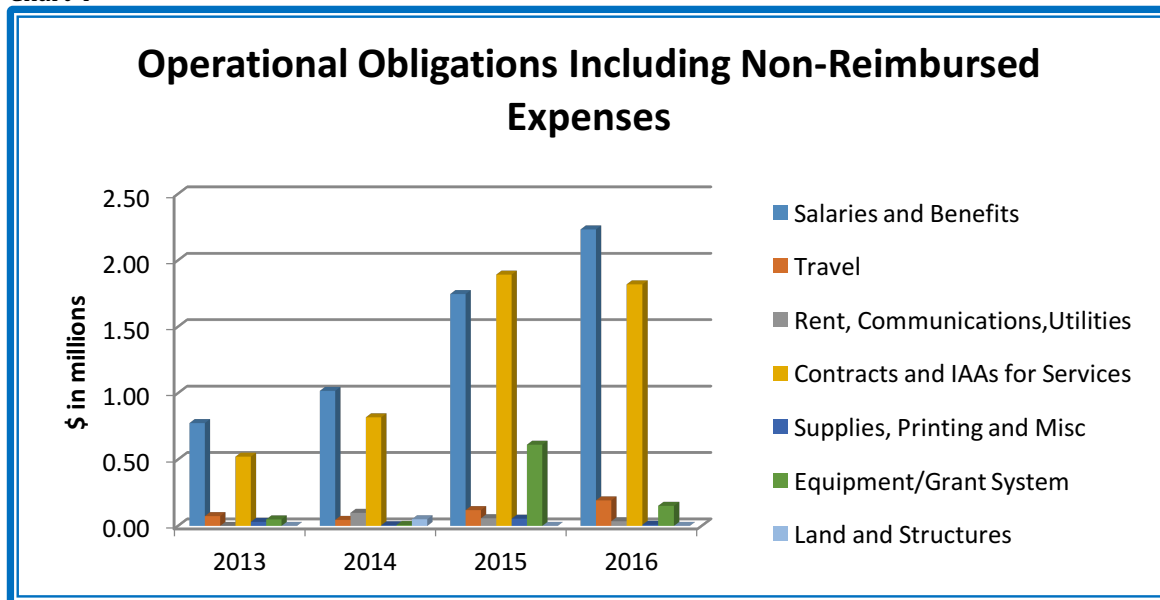


Chart 3 shows fiscal years 2013 through 2016 Trust-funded obligations by cost category and Chart 4 shows fiscal year 2013 through 2016 obligations plus non-reimbursed costs funded by other Federal agencies. The three cost drivers are personnel compensation and benefits costs, contracts and agreements for services, and the cost of the automated grant system. In fiscal year 2015, the Council entered into and fully funded a three-year agreement in the amount of \$565,211 for website hosting, support and security, plus geographic information system (GIS) and data mapping services, entered into an agreement to acquire and host the RAAMS system, and awarded a contract to perform an enterprise-wide risk assessment and

draft the Council's administrative and financial policies and procedures, thus generating a significant increase in the contracts/ agreements for services and equipment categories.

In fiscal year 2016, the contracts and agreements for services category included accounting, human resources, RAAMS hosting by the National Technical Information Service (NTIS), RAAMS transition costs NTIS to the United States Geological Survey (USGS), RAAMS information technology (IT) and helpdesk support, and an agreement to develop the requirements and propose a solution for the Council's administrative IT infrastructure. Travel cost also increased commensurate with the increase in staff and the implementation of the FPL and Spill Impact programs. Land and structures in fiscal year 2014 were the costs of modifying the office space to an open office design to allow improved space utilization. The equipment and grant system category includes the costs for RAAMS, both capitalized and non-capitalized, as well as the costs for systems furniture, computer equipment and cellular equipment.

The Council increased its staff from 6.3 FTE to 12.9 FTE by the end of the 2016 fiscal year, with 16.5 of 20.5 approved permanent staff on board, two new staff selected and the remaining two under recruitment.

The Act specifies that of the [Comprehensive Plan] amounts received by the Council, not more than 3% of the funds may be used for administrative expenses, including staff; and **Title 31 of the Code of Federal Regulations (CFR) § 34.204(b) Limitations on administrative costs and administrative expenses** (as amended September 28, 2016) states that "Of the amounts received by the Council under the Comprehensive Plan Component, not more than three percent may be used for administrative expenses. The three percent limit is applied to the amounts it receives under the Comprehensive Plan Component before termination of the Trust Fund. Amounts used for administrative expenses may not at any time exceed three percent of the total of the amounts received by the Council and the amounts in the Trust Fund that are allocated to, but not yet received by, the Council under § 34.103."

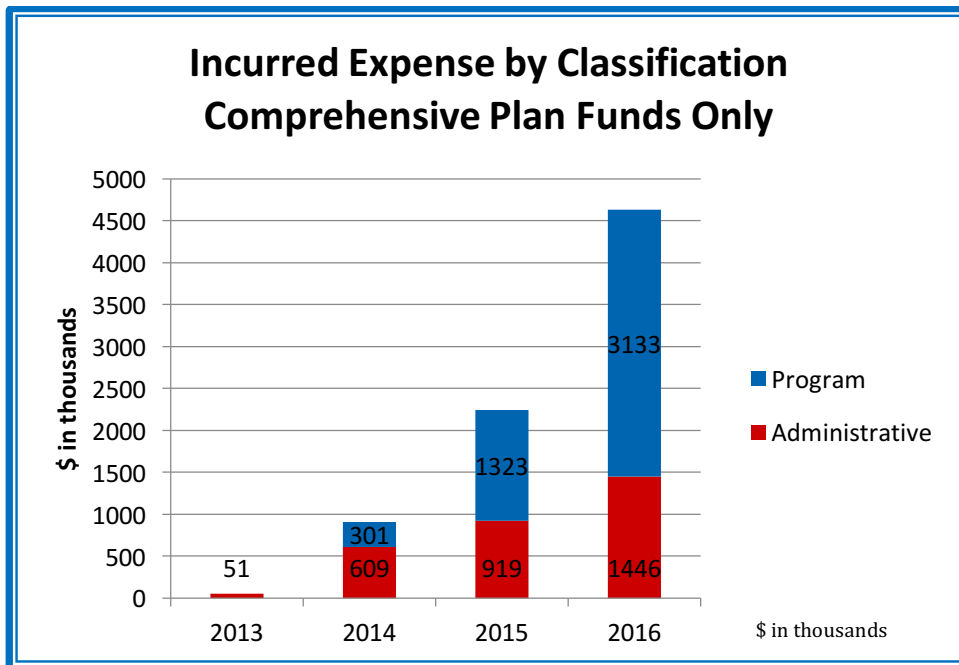
The Council worked with the Office of Management and Budget (OMB) to segregate the funds when they are apportioned. The Treasury Final Rule, implementing the RESTORE Act, provides a definition of administrative expenses that guides the Council in properly classifying expenses as administrative and the remaining categories of expenses as programmatic. Table 4 shows that the Council is operating well under the 3% administrative expense limitation whether viewed from an expensed or apportioned perspective.

Table 4

CP Funds Available	\$ 284,571,477.47
Total Admin Expense	\$ 3,025,705.59
Percent Expensed	1.1%
CP Funds Available	\$ 284,571,477.47
Total Admin Apportioned	\$ 3,605,092.00
Percent Obligated/Expended	1.3%

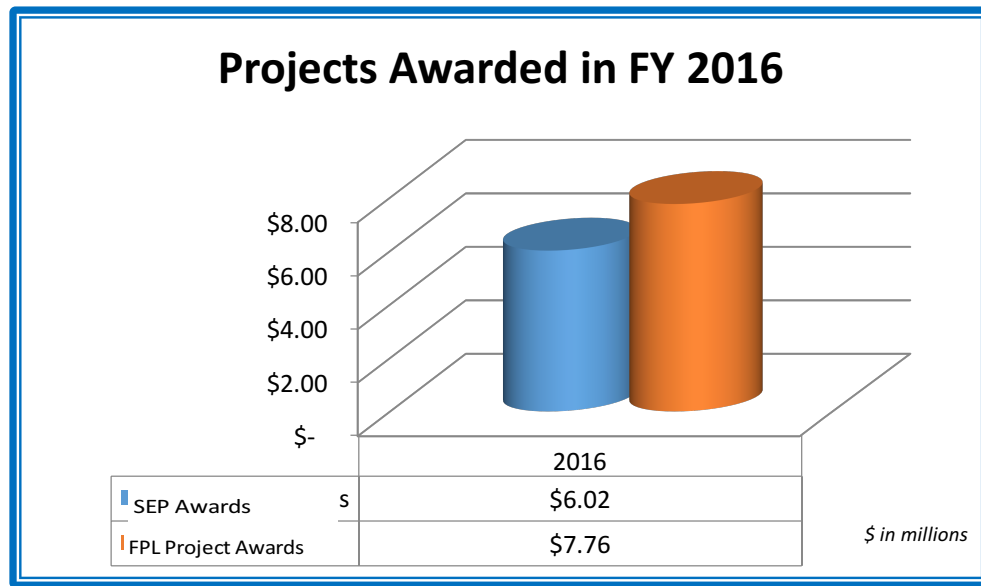
Chart 5 presents the Council's cost data by administrative or program cost classification. Program expenses include programmatic operational costs incurred under FPL grants and IAAs for projects. Non-reimbursed costs from other Federal agencies do not count against the 3% limitation.

Chart 5



Fiscal year 2016 marks the first year the Council awarded grants and IAAs. The Council awarded two SEP planning grants, one to the Florida Consortium of Counties and one to Mississippi. The Council awarded one IAA to the Bureau of Indian Affairs in the Department of the Interior, and one FPL grant to Louisiana. In total, the Council awarded \$13,274,503 in grants and entered into an IAA for \$500,000. Chart 6 shows the breakdown between FPL and Spill Impact dollars awarded.

Chart 6



### Summary Financial Condition

The changes reflected in the financial statements are a reasonable and accurate reflection of the Council's implementation of its programs and administrative infrastructure. The Council approved the first FPL and published the Oil Spill final rule. In support of these programs, the Council successfully deployed an automated grants system in early December 2015 that is integrated with the Council's GIS and accounting system. RAAMS has rigorous technical, best available science, financial, and compliance controls that correlate financial data with functional milestones through the life of a project. The system will collect robust financial and programmatic data for every project, including cash flow projections for better cash management by the Council. With these achievements, and the few remaining vacancies to be filled, the Council has now achieved steady-state operations.

The Council's financial condition as of September 30, 2016 is sound, and the Council has sufficient processes in place to ensure its budget authority is not exceeded and that funds are utilized efficiently and effectively. The Council completed an enterprise-wide risk assessment in accordance with OMB Circular A-123, and has in place documented and implemented internal control policies and procedures to ensure that the Council is exercising sound fiduciary management of the Trust Funds for which it is responsible.

The Council's accounting services provider, the U.S. Department of the Treasury Administrative Resource Center (ARC) in the Bureau of the Fiscal Service, prepared the Council's financial statements as required by the Accountability of Tax Dollars Act of 2002 and pursuant to the requirements of 31 U.S.C. § 3515(b). They have been prepared from,

and are fully supported by, the books and records of the Council in accordance with Generally Accepted Accounting Principles (GAAP) recognized in the United States of America, the standards of the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136, *Financial Reporting Requirements*.

### **Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position and results of operations of the entity, changes in net position and budgetary resources of the Council, pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the Council in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for an independent agency of the U.S. Government. The financial statements, footnotes, and the remainder of the required supplementary information appear in their entirety in the section "Financial Statements."

### **Financial Performance Measure Summary**

The Council does not have an in-house financial accounting system and does not receive a Performance Measure Summary from the Department of the Treasury. The Council acquires travel, procurement, accounting and financial services from the Treasury ARC. The Council verifies and reconciles all financial statements and reports prior to submission, and has remained in compliance with all reporting thresholds.

### **SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

This section provides information on the Council's adherence with the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires that Chief Financial Officers (CFO) Act agencies establish controls to provide reasonable assurance that obligations and costs comply with applicable law; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. It requires the agency head to provide an assurance statement of the adequacy of management controls and conformance of financial systems with government standards.

The Council has provided its annual assurance statement, signed by the Executive Director, on the following page.

## **COUNCIL'S FMFIA STATEMENT OF ASSURANCE**

### **November 15, 2016**

The Council is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

The Council utilizes the services of the Department of Treasury Fiscal Services financial management system, Oracle Federal Financials. Annual examinations of their system indicate that the system complies with federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level.

The Council established internal controls over its agreements, disbursements, and end-user controls, and relies on the controls over accounting, procurement and general computer operations that ARC has in place. The Council obtained the ARC 2016 Statement on Standards for Attestation Engagements (SSAE) Number 16, *Reporting on Controls at a Service Organization* report and reviewed it to assist in assessing the internal controls over the Council's financial reporting. After a thorough review of the results, the Council did not discover any significant issues or deviations in its financial reporting during fiscal year 2016.

The information presented on the Council's Statement of Budgetary Resources is reconcilable to the information submitted on the Council's year-end Report on Budget Execution and Budgetary Resources (SF 133). This information will be used as input for the fiscal year 2016 actual column of the Program and Financing Schedules reported in the fiscal year 2018 Budget of the U.S. Government. Such information is supported by the related financial records and related data.

In fiscal year 2016, the Council implemented a sufficient and comprehensive internal control program to meet the objectives of FMFIA and OMB Circular A-123 *Management's Responsibility for Internal Control*. This program, implemented for the entire year, has enabled the Council to eliminate the significant deficiency issued in fiscal year 2015.

For fiscal year 2016, the Council provides unqualified assurance that the objectives of Section 2 and Section 4 of FMFIA have been achieved. The Council is responsible for establishing and maintaining effective internal control over financial reporting and provides assurance that internal control over financial reporting as of June 30, 2016 was operating effectively.

The Council has implemented a process of continuous improvement of the controls and documentation for its financial and grants management activities and continues to develop its risk management program to be in compliance with the requirements and deadlines of OMB Circular A-123.

A handwritten signature in black ink, appearing to read "Justin R. Ehrenwerth", with a long horizontal line extending from the end of the signature.

Justin R. Ehrenwerth  
Executive Director  
Gulf Coast Ecosystem Restoration Council

**FINANCIAL SECTION**  
**MESSAGE FROM THE CHIEF FINANCIAL OFFICER**  
**November 15, 2016**

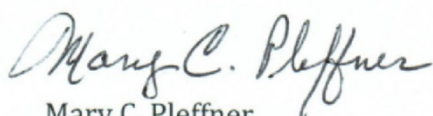
I am pleased to present our financial statements for fiscal year 2016. This report demonstrates our commitment to fulfill our fiduciary responsibilities to our constituents in the Gulf Coast region and to the American public.

The audit has resulted in an unmodified (or “clean”) opinion. The audit reported that the Council documented and implemented entity level and process level controls for the entire year. It also noted that an organizational risk assessment was completed, and accordingly, the significant deficiency was eliminated.

Fiscal year 2016 saw major milestones achieved. A commercial off-the-shelf automated grants management system was successfully deployed in conjunction with the commencement of the Council grant program. The grant system was designed to comply with the requirements of the DATA Act, and the Council is on target with all OMB milestones for DATA Act implementation.

Internal control has been and continues to be a major consideration in the development and continued refinement of the Council’s policies and procedures and automated systems. Administrative, finance, accounting, grants and interagency agreement policies and procedures have been developed and documented and continue to be refined as staff gains experience. Of particular note, post-award grants management procedures are being developed to mitigate the risk of improper payments and address risks identified in the enterprise-wide risk assessment while also garnering information that will enhance the Council’s ability to forecast cash requirements and manage the awards to ensure positive outcomes.

These financial statements fairly present our financial position, net cost, changes in net position, and budgetary resources and were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB.

  
Mary C. Pleffner  
Chief Financial Officer

## INSPECTOR GENERAL TRANSMITTAL LETTER



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

November 15, 2016

The Honorable Thomas Vilsack  
Secretary, U.S. Department of Agriculture  
Chairperson, Gulf Coast Ecosystem Restoration Council  
1400 Independence Ave., SW  
Washington, D.C. 20250

Dear Chairperson Vilsack:

Under a contract monitored by our office, RMA Associates, LLC (RMA), an independent certified public accounting firm audited the financial statements of the Gulf Coast Ecosystem Restoration Council (Council) as of September 30, 2016 and 2015, and for the years then ended, provided a report on internal control over financial reporting, and a report on compliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with government auditing standards and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

The audit of the Gulf Coast Ecosystem Restoration Council's financial statements is required by the Chief Financial Officer's Act, as amended by the Accountability of Tax Dollars Act of 2002. This audit was performed as part of our authority under Section 1608 of the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012.

In its audit of the Council, RMA found:

- the financial statements were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested.

In connection with the contract, we reviewed RMA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on the Council's financial statements or

conclusions about the effectiveness of internal control or compliance with laws and regulations. RMA is responsible for the attached auditors' report dated November 11, 2016, and the conclusions expressed in the report. However, our review disclosed no instances where RMA did not comply, in all material respects, with U.S. generally accepted government auditing standards and OMB Bulletin No. 15-02.

I appreciate the courtesy and cooperation extended to RMA and my staff during the audit. Should you have any questions, please contact me at (202) 622-1090, or a member of your staff may contact Deborah Harker, Assistant Inspector General for Audit, at (202) 927-5400.

Sincerely,

/s/

Eric M. Thorson  
Inspector General, Department of the Treasury

cc: Robert Bonnie, Chairperson Designee  
Justin Ehrenwerth, Executive Director

Enclosure

## **Independent Auditors' Report**

Inspector General  
Department of the Treasury

The Honorable Thomas Vilsack  
Secretary, U.S. Department of Agriculture  
Chairperson, Gulf Coast Ecosystem Restoration Council

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Gulf Coast Ecosystem Restoration Council (Council) which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements" or "basic financial statements"), for the years then ended; and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulf Coast Ecosystem Restoration Council as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The *Message from the Executive Director on Behalf of the Council*, the *Performance Section*, and the *Other Information* are presented for purposes of additional analysis and are not a

required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and certain provisions of other laws and regulations specified in OMB Bulletin No. 15-02, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. The communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Arlington, VA

November 11, 2016



## Gulf Coast Ecosystem Restoration Council

November 15, 2016

RMA Associates, LLC  
1005 N. Glebe Road, Suite 210  
Arlington, Virginia 22201

Gentlemen:

The Council is proud of the success it has achieved in standing up a new independent federal entity and establishing the administrative, financial and operational foundation to carry out its mission and achieve the goals and objectives of its Comprehensive Plan.

In fiscal year 2016, the Council successfully completed an administrative action plan to address the significant deficiency identified in its fiscal year 2015 audit by completing an organization risk assessment and fully documenting its internal control and administrative policies and procedures. As a result of these efforts, the Council has in place the five internal control components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. This integrated internal control framework meets the requirements of GAO and OMB, and positions the Council to exercise adequate oversight of the disbursement and use of funding for projects and programs to achieve the goals and objectives of the RESTORE Act for restoration in the Gulf Coast region.

Justin R. Ehrenwerth  
Executive Director

**GULF COAST ECOSYSTEM RESTORATION COUNCIL**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015**

**GULF COAST ECOSYSTEM RESTORATION COUNCIL  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015**

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Table 5

GULF COAST ECOSYSTEM RESTORATION COUNCIL			
BALANCE SHEET			
AS OF SEPTEMBER 30, 2016 AND 2015			
(In Dollars)			
	2016		2015
Assets:			
Intragovernmental			
Fund Balance With Treasury (Note3)	\$	7,792,004	\$ 1,111,966
Expenditure Transfers Receivable (Note 4)		158,071,376	2,052,551
Total Intragovernmental		165,863,380	3,164,517
Accounts Receivable, Net		1,644	-
Property, Equipment, and Software, Net (Note 5)		715,927	158,685
Total Assets	\$	166,580,951	\$ 3,323,202
Liabilities:			
Intragovernmental			
Accounts Payable (Note 6)	\$	628,620	\$ 389,574
Employer Contribution On Payroll Taxes Payable		20,263	10,284
Total Intragovernmental		648,883	399,858
With the Public	-		-
Accounts Payable	\$	223,097	\$ 25,083
Other Liabilities (Note 7)		894,197	227,596
Total Liabilities With the Public		1,117,294	252,679
Total Liabilities	\$	1,766,177	\$ 652,537
Commitments and Contingencies			
Net Position:			
Cumulative Results of Operations - Funds from Dedicated Collections	\$	164,814,774	\$ 2,670,665
Total Net Position	\$	164,814,774	\$ 2,670,665
Total Liabilities and Net Position	\$	166,580,951	\$ 3,323,202

Table 6

<b>GULF COAST ECOSYSTEM RESTORATION COUNCIL</b> <b>STATEMENT OF NET COST</b> <b>FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015</b> <b>(In Dollars)</b>			
		2016	2015
<b>Program Costs:</b>			
Comprehensive Plan - Administrative Expenses:			
Gross Costs	\$	1,467,609	\$ 938,937
Net Comprehensive Plan - Administration Expenses	\$	1,467,609	\$ 938,937
Comprehensive Plan - Programmatic Expense:			
Gross Costs	\$	3,061,346	\$ 2,030,196
Total Comprehensive Plan Programmatic Expenses	\$	3,061,346	\$ 2,030,196
Comprehensive Plan Projects & Programs (grants)			
Gross Costs	\$	226,400	\$ -
Total Comprehensive Plan Projects and Programs (grants)	\$	226,400	\$ -
Net Comprehensive Plan - Programmatic Expense Costs	\$	3,287,746	\$ 2,030,196
Spill Impact - State Expenditure Plan (grants)			
Gross Costs	\$	496,553	\$ -
Net Spill Impact Costs (grants)	\$	496,553	\$ -
Net Cost of Operations (Note 8)	\$	5,251,908	\$ 2,969,133

Table 7

<b>GULF COAST ECOSYSTEM RESTORATION COUNCIL</b> <b>STATEMENT OF CHANGES IN NET POSITION</b> <b>FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015</b> <b>(In Dollars)</b>			
		2016 Dedicated Collections	2015 Dedicated Collections
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$	2,670,665	\$ 1,363,494
Beginning Balances, as adjusted	\$	2,670,665	\$ 1,363,494
<b>Budgetary Financing Sources:</b>			
Transfers In/Out Without Reimbursement	\$	167,218,825	\$ 3,548,387
<b>Other Financing Sources (Non-Exchange):</b>			
Imputed Financing Sources (Note 9)	\$	177,192	\$ 727,917
Total Financing Sources		167,396,017	4,276,304
Net Cost of Operations		(5,251,908)	(2,969,133)
Net Change		162,144,109	1,307,171
Cumulative Results of Operations	\$	164,814,774	\$ 2,670,665
Net Position	\$	164,814,774	\$ 2,670,665

Table 8

<b>GULF COAST ECOSYSTEM RESTORATION COUNCIL</b> <b>STATEMENT OF BUDGETARY RESOURCES</b> <b>FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015</b> <b>(In Dollars)</b>		
	2016	2015
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 922,055	\$ 1,123,318
Unobligated Balance Brought Forward, October 1, as adjusted	922,055	1,123,318
Recoveries of Prior Year Unpaid Obligations	373,964	1,779
Unobligated balance from prior year budget authority, net	1,296,019	1,125,097
Spending authority from offsetting collections (Note 4)	167,218,825	3,548,387
<b>Total Budgetary Resources</b>	<b>\$ 168,514,844</b>	<b>\$ 4,673,484</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	\$ 18,111,702	\$ 3,751,428
Unobligated balance, end of year:		
Apportioned	150,029,178	920,547
Unapportioned	373,964	1,509
Total unobligated balance, end of year	150,403,142	922,056
<b>Total Budgetary Resources</b>	<b>\$ 168,514,844</b>	<b>\$ 4,673,484</b>
<b>Change in Obligated Balance</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 2,242,462	\$ 581,750
Obligations Incurred	18,111,702	3,751,428
Outlays (gross)	(4,519,962)	(2,088,938)
Recoveries of Prior Year Unpaid	(373,964)	(1,779)
Unpaid obligations, end of year	15,460,237	2,242,462
<b>Uncollected payments:</b>		
Uncollected payments from Federal sources, brought forward, October 1	(2,052,551)	(764,164)
Change in uncollected payments from Federal Sources	(156,018,825)	(1,288,387)
Uncollected payments from Federal sources, end of year (Note 4)	(158,071,376)	(2,052,551)
<b>Memorandum entries:</b>		
Obligated balance, start of year	\$ 189,911	\$ (182,414)
Obligated balance, start of year, as adjusted	189,911	(182,414)
<b>Obligated balance, end of year</b>	<b>\$ (142,611,139)</b>	<b>\$ 189,911</b>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 167,218,825	\$ 3,548,387
Actual offsetting collections	(11,200,000)	(2,260,000)
Change in uncollected payments from Federal sources	(156,018,825)	(1,288,387)
<b>Budget Authority, net, (total)</b>	<b>\$ -</b>	<b>\$ -</b>
Outlays, gross	\$ 4,519,962	\$ 2,088,938
Actual offsetting collections	(11,200,000)	(2,260,000)
Outlays, net, (total)	(6,680,038)	(171,062)
<b>Agency outlays, net</b>	<b>\$ (6,680,038)</b>	<b>\$ (171,062)</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1. REPORTING ENTITY**

#### **A. Reporting Entity**

The Gulf Coast Ecosystem Restoration Council (Council) was established under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) (title I, subtitle F of PL 112-141) and section 311 of the Federal Water Pollution Control Act (FWPCA) (33 U.S.C. 1321). The Council is comprised of governors from the five affected Gulf States (Alabama, Florida, Louisiana, Mississippi and Texas), the Secretaries from the U.S. Departments of the Interior, Commerce, Agriculture, and Homeland Security, as well as the Secretary of the Army and the Administrator of the U.S. Environmental Protection Agency.

The Council reporting entity is comprised of a General Fund and General Miscellaneous Receipts. The Council is a party to interagency transfers with the Gulf Coast Restoration Trust Fund (Trust Fund). The interagency transfers are processed through the Intra-Governmental Payment and Collection (IPAC) System.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues.

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Basis of Accounting and Presentation**

The financial statements have been prepared to report the financial position net costs, changes in net position and budgetary resources of the Council. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results. The Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the Council in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board

(FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and the Council accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the Council's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

### **B. Fund Balance with Treasury**

Fund Balance with Treasury is the aggregate amount of the Council's funds with Treasury in expenditure, receipt, and deposit fund accounts. Funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The Council does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

### **C. Expenditure Transfers Receivable**

An Expenditure Transfers Receivable is established when an apportionment is approved by OMB and funds can be drawn from the Trust Fund. However, funds are left in the Trust Fund until needed for cash disbursements so that these monies can continue to be invested and earn interest.

### **D. Property, Equipment and Software**

Property, equipment and software represent furniture, fixtures, equipment, and IT hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives.

The Council's capitalization threshold for general property, equipment, leasehold improvements and software is \$50,000 for individual and \$500,000 for bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life for the Council's equipment and software capitalized assets is 5 years.

## **E. Liabilities**

Liabilities represent the amount of funds likely to be paid by the Council as a result of transactions or events that have already occurred.

The Council reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another Federal agency. Liabilities With the Public represents funds owed to any entity or person that is not a Federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

## **F. Use of Estimates**

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

## **G. Funds from Dedicated Collections**

The RESTORE Act of 2012 established in the Treasury of the United States a trust fund known as the Gulf Coast Restoration Trust Fund, which consists of deposits equal to 80% of all administrative and civil penalties paid by responsible parties in connection with the explosion on and sinking of the mobile offshore drilling unit Deepwater Horizon.

Pursuant to P.L. 112-141 Sec 1601-1608, 60% of administrative and civil penalty deposits in the Gulf Coast Restoration Trust Fund (020X8625) and 50% of interest revenue collections from the amount in the Gulf Coast Restoration Trust Fund, available until expended, are transferred to the Gulf Coast Ecosystem Restoration Council.

## H. Imputed Costs

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The Council received support from Council Members primarily through non-reimbursable details and support services. The Council recognized imputed costs and financing sources in fiscal years 2016 and 2015 to the extent directed by accounting standards.

### NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury account balances as of September 30, 2016 and 2015 were as follows:

Table 9

<b>FUND BALANCE WITH TREASURY (CASH)</b>		
<b>ACCOUNT BALANCES</b>		
	<b>2016</b>	<b>2015</b>
<b>Fund Balances (General Fund):</b>		
Comprehensive Plan - Administration Costs	\$ 279,128	\$ 544,502
Comprehensive Plan - Program Costs	--	567,464
Programmatic Expense	983,829	--
Projects and Programs (grants)	300,000	--
Spill Impact Program (grants)	6,229,047	--
<b>Total</b>	<b>\$ 7,792,004</b>	<b>\$ 1,111,966</b>

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

Table 10

STATUS OF FUND BALANCE WITH TREASURY		
	2016	2015
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$150,029,178	\$ 920,546
Unavailable	373,964	1,509
Unpaid Obligations, End of Year	15,460,237	2,242,462
Uncollected Payments From Federal Sources, End of Year	\$(158,071,375)	(2,052,551)
<b>Total</b>	<b>\$ 7,792,004</b>	<b>\$1,111,966</b>

The available unobligated fund balances represent the current-period amount available for obligation or commitment. Since the Council has no-year funds, at the start of the next fiscal year, this amount, along with recoveries not yet apportioned will be reapportioned.

The unavailable unobligated fund balances represent the amount of appropriations which have been recovered from prior year obligations. These balances are available for reapportionment.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

#### NOTE 4. EXPENDITURE TRANSFERS RECEIVABLE

Expenditure Transfers Receivable represents the balance of funds from the Trust Fund due to the Council from the apportionments approved by OMB.

Table 11

EXPENDITURE TRANSFERS RECEIVABLE		
	2016	2015
Funds Apportioned	\$ 167,218,825	\$ 3,548,387
Funds Received	(11,200,000)	(2,260,000)
Prior Year Receivable Carry Forward	2,052,551	764,164
<b>Balance Expenditure Transfers Receivable</b>	<b>\$ 158,071,376</b>	<b>\$ 2,052,551</b>

## NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2016 and 2015.

Table 12

MAJOR CLASS	2016	2015
Internal-Use Software	\$ 492,936	\$ --
Less: Accumulated Depreciation	(73,940)	--
Software in Development	296,932	158,685
Property, Equipment, and Software, Net	\$ 715,927	\$ 158,685

## NOTE 6. INTRAGOVERNMENTAL LIABILITIES – ACCOUNTS PAYABLE

The Balance in Accounts Payable account consists of a number of interagency agreements for services from other federal agencies received but not yet billed. The table below provides additional detail.

Table 13

INTRAGOVERNMENTAL LIABILITIES - ACCOUNTS PAYABLE		
	2016	2015
Department of Commerce / legal/HR/email services	\$ --	\$ 168,889
United States Department of Commerce	153,277	--
DHS/ICE/Federal Protective Service	1,267	
Environmental Protection Agency/web hosting	--	24,350
General Services Administration/office space lease	--	1,076
United States Department of Geological Survey	272,505	
Department of the Interior/Interior Business Center/ network services	--	8,290
National Technical Information Services	159,117	
Department of the Treasury/Office of Inspector General/audit	--	4,800
Government Publishing Office	42,453	42,454
Department of Commerce/Office of the Secretary/salary reimbursement	--	101,560
Department of Interior/US Geological Service/website and GIS support	--	38,155
Total Intragovernmental Liabilities	\$628,620	\$ 389,574

## NOTE 7. Other Liabilities

Other Liabilities as of September 30, 2016 were as follows:

Table 14

OTHER LIABILITIES		
	2016	2015
Other Liabilities		
Comprehensive Plan Projects and Programs	\$ 226,400	\$ --
Spill Impact Projects and Programs	325,600	--
Accrued Payroll and Leave	338,854	225,740
Employer Taxes Payable	3,343	1,856
Total Other Liabilities	\$ 894,197	\$ 227,596

## NOTE 8. INTRAGOVERNMENTAL COST

Intragovernmental costs represent exchange transactions between the Council and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs are summarized as follows:

Table 15

INTRAGOVERNMENTAL COSTS		
	2016	2015
Intragovernmental Costs	\$ 1,396,855	\$ 1,632,964
Public Costs	3,855,053	1,336,169
Total Net Cost	\$ 5,251,908	\$ 2,969,133

## NOTE 9. IMPUTED COSTS

The Council received support totaling \$177,192 in fiscal year 2016 and \$727,917 in fiscal year 2015. The table on the following page identifies the level of support provided by agency/organization.

Table 16

IMPUTED COSTS		
	2016	2015
Department of Agriculture	\$ --	\$ 25,738
Department of Commerce	101,093	--
Environmental Protection Agency	--	107,490
Office of Personnel Management	76,099	34,270
Department of Interior	--	37,707
Ocean Conservancy	--	28,658
Dept. of Commerce, National Oceanic & Atmospheric Administration	--	156,555
Dept. of Commerce, National Technical Information Service	--	337,500
Total	\$ 177,192	\$ 727,917

## NOTE 10. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2016 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2017 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2017 Budget of the United States Government, with the "Actual" column completed for 2016, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

## NOTE 11. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the periods ended September 30, 2016 and 2015, budgetary resources obligated for undelivered orders amounted to \$12,694,062 and \$1,589,925, respectively.

## NOTE 12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Council has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

Table 17

RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET		
	2016	2015
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 18,111,701	\$ 3,751,428
Spending Authority from Offsetting Collections and Recoveries	(167,592,789)	(3,550,166)
Obligations Net of Offsetting Collections and Recoveries	(149,481,088)	201,262
Net Obligations	(149,481,088)	201,262
Other Resources		
Imputed Financing From Costs Absorbed by Others	177,192	727,917
Net Other Resources Used to Finance Activities	177,192	727,917
Total Resources Used to Finance Activities	(149,303,896)	929,179
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(12,104,137)	(1,349,749)
Funds Transferred In	167,218,827	3,548,387
Resources That Finance the Acquisition of Assets	(557,243)	(158,685)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	154,557,447	2,039,953
Total Resources Used to Finance the Net Cost of Operations	\$ 5,253,551	\$ 2,969,133
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Other	(1,644)	-
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(1,644)	-
Net Cost of Operations	\$ 5,251,908	\$ 2,969,133

## NOTE 13. LEASES

The Council entered into an operating lease for 1,883 usable (2,399 rentable) square feet of office space with GSA in September 2014 in the Hale Boggs Federal Building/Courthouse in New Orleans. The Council entered their third year of occupancy effective October 1, 2016. The Council may relinquish space upon four months' notice. Thus, the Council's financial obligation will be reduced to four months of rent.

## OTHER INFORMATION (UNAUDITED)

### SCHEDULE OF SPENDING AND EXPLANATORY NOTES

Table 18

<b>GULF COAST ECOSYSTEM RESTORATION COUNCIL</b> <b>SCHEDULE OF SPENDING</b> <b>FOR THE YEARS ENDED SEPTEMBER 30, 2016 &amp; 2015</b> <b>(In Dollars)</b>		
	2016	2015
<b>What Money is Available to Spend?</b>		
Total Resources	\$ 168,514,844	\$ 4,673,484
Less Amount Not Agreed to be Spent	(150,029,178)	(920,547)
Less Amount Not Available to be Spent	(373,964)	(1,509)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 18,111,702</b>	<b>\$3,751,428</b>
<b>How was the Money Spent?</b>		
Personnel Compensation	\$ 1,709,560	\$ 1,090,070
Personnel Benefits	496,707	265,211
Travel and transportation of persons	192,184	118,763
Transportation of things	428	3,373
Rent, Communications, and utilities	35,217	57,315
Printing and reproduction	3,857	45,527
Other contractual services	1,743,738	1,554,450
Supplies and materials	4,451	3,198
Equipment	151,056	611,269
Grants, subsidies and contributions	13,774,503	--
Interest and dividends	1	2,252
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 18,111,702</b>	<b>\$ 3,751,428</b>
<b>Who did the Money go to?</b>		
Federal	\$2,076,008	\$2,055,350
Non-Federal	16,035,694	1,696,078
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 18,111,702</b>	<b>\$ 3,751,428</b>

#### Schedule of Spending Discussion

In fiscal year 2016, the Council received a total of \$11,200,000 in funds from the Gulf Coast Restoration Trust Fund. Funds were disbursed to pay for salaries and benefits, travel, rent, communications, training, IT and office equipment, and services for human resources, security, website and grant system hosting and services, accounting, and auditing.

In fiscal year 2016, the Council received a total of \$168,140,880 in new authority, carried forward \$922,055 from fiscal year 2015, and obligated \$18,111,702 in total. This Funding covered salary and benefits costs for 12.9 FTE. IAA's for accounting, procurement, travel, legal, audit, payroll, building security, website hosting and GIS support services, grant system hosting and support services, were entered into with ARC, the Department of Commerce, Department of the Treasury Office of Inspector General, the USDA National Finance Center, Department of Homeland Security Immigration and Citizenship Service, Department of the Interior US Geological Service, and the Department of Commerce National Technical Information Services, respectively comprise "other contractual services." Rent, communications and utilities costs included a lease for office space and cell phone equipment and service. Equipment consisted of RAAMS enhancement development costs and office and IT equipment. Two planning grants were awarded from Oil Spill Impact funding, and one grant and one IAA were awarded from the Funded Priorities List approved in December 2015. \$150,029,178 remained unobligated at the end of the fiscal year; and of that amount, \$148,794,402 is committed to the remaining Category 1 projects on the FPL.

The Council has no revenue forgone, and does not collect taxes.

#### **MANAGEMENT CHALLENGES AND RESPONSE**

The Treasury Inspector General (IG) has oversight responsibility over the Council. The 2016 Managements and Performance Challenges (OIG-CA-17-004) Report and the Council's response are as follows.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 26, 2016

The Honorable Thomas Vilsack  
Secretary, U.S. Department of Agriculture  
Chairperson, Gulf Coast Ecosystem Restoration Council  
1400 Independence Ave, SW  
Washington, DC 20250

Re: 2016 Management and Performance Challenges (OIG-CA-17-004)

Dear Chairperson Vilsack:

As required by the Reports Consolidation Act of 2000, I am providing you, as Chairperson for the Gulf Coast Ecosystem Restoration Council (Council), an annual perspective of the most serious management and performance challenges facing the Council. In assessing the most serious challenges, we are mindful that the Council is still a relatively new Federal entity with many responsibilities under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). This year, we continue to report one challenge from prior year and present two new challenges:

- Implementing an Infrastructure to Administer Gulf Coast Restoration Activities (repeat challenge)
- Stakeholder Coordination and Outreach (new challenge)
- Federal Statutory and Regulatory Compliance (new challenge)

While challenges still lay ahead, I want to begin by acknowledging some of the Council's more notable accomplishments over the past year. In December 2015, the Council approved the Funded Priorities List, as well as the Spill Impact Component Final Rule, which established the formula allocating funds made available from the Gulf Coast Restoration Trust Fund. Council also installed its Restoration Assistance and Award Management System (RAAMS) to administer grants. Furthermore, the Council underwent its second financial statement audit covering fiscal years 2014 and 2015. Working under the oversight supervision of my office, an independent certified public accountant issued unmodified opinions (also referred to as "clean opinions") on the Council's financial statements. The auditor also downgraded the material weakness reported in the prior year concerning the Council's lack of documented and implemented internal controls to a significant deficiency. That said, there is still work to be done in completing the Council's organizational infrastructure. New and existing Federal requirements have created a need for additional specialized staff. With reliance on a variety of contracted services to support the Council's lean foundation, suitable oversight is necessary.

We are also cognizant of the upcoming change in Presidential administration and the transition to new leadership that may bring to the Council. We believe that continuing in its path toward completing its original organization infrastructure will better position the Council to address the new challenges we have reported as well as any uncertainty a change in leadership might bring.

### **Challenge 1: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities**

Over the course of the past year, the Council has made significant progress in developing its organization infrastructure by filling critical administrative and programmatic positions, as well as, solidifying many policies and procedures supporting internal control. However, staff and skill gaps remain in the area of information technology that are critical to the success of the Council's operations and meeting the requirements of the Federal Information Security Modernization Act of 2014. Staff with specialized training and qualifications are necessary for providing a reliable and secure information technology environment and to support the Council in carrying out its RESTORE Act activities. Although the Council has interim measures such as contractor support to address its gaps in information technology, a permanent solution is needed to establish a long-term information technology plan with consistent personnel with the requisite expertise.

This challenge should be considered in context with the Office of Management and Budget's update to Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Effective fiscal year 2017, agencies must implement an Enterprise Risk Management (ERM) capability to integrate strategic planning and review processes established by the Government Performance and Results Act Modernization Act, and internal control processes required by the Federal Managers' Financial Integrity Act and the Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book). Although the Council is not a large entity, ERM implementation will require close collaboration across all affected parties in order to meet the June 2017 deadline for completing its initial risk profile.

Furthermore, for those risks for which formal internal controls have been identified as part of the initial risk profile in fiscal year 2017, the Council must provide assurances on internal control processes in its Fiscal Year 2017 Agency Financial Report. The Council has determined that a dedicated staff member will be needed to focus on risk management. However, it may be difficult to have such personnel on board timely enough to become informed of the Council's current operations. As such, there is risk that the Council will not meet its initial ERM requirements. In addition, addressing the information technology staff and skill gap in its organizational structure is crucial to identifying and addressing risks.

### **Challenge 2: Stakeholder Coordination and Outreach**

The Council's responsibilities for funding the economic and environmental restoration of the Gulf Coast are far-reaching and involve many parties and stakeholders. With that comes the challenge of communicating key decisions and coordinating activities to ensure funds are used in the most effective and efficient way possible. This is a formidable task given that the Council is charged with administering two critical and large RESTORE Act components: the Council-Selected Restoration Component and the Spill Impact Component. Together, these components will receive 60 percent of the Gulf Coast Restoration Trust Fund (Trust Fund) deposits plus 50 percent of the total interest earned on the Trust Fund receipts. To date, the Trust Fund received approximately \$936 million as a result of the Federal Government's settlement with the Transocean and Anadarko defendants as well as interest payments. The

Trust Fund is expected to receive additional deposits of approximately \$4.4 billion plus interest from the Federal Government's settlement with BP Exploration & Production Inc. Payments will cover a 15-year period beginning in April 2017.

With the number of other funding sources available for Gulf Coast restoration, managing restoration activities will be difficult as there is no statutory requirement for all affected parties to coordinate restoration activities. Additionally, there is no central authority to identify potential overlaps. The Council must strive to maintain transparency and communicate with other Federal, State, and local governments as well as non-profit entities to ensure restoration activities and projects are conducted efficiently, while also working to reduce the risk for duplicating funds on proposed activities.

### **Challenge 3: Federal Statutory and Regulatory Compliance**

While the Council must ensure that activities and projects funded by the RESTORE Act meet all environmental laws and regulations at the Federal and State level, the Council must also ensure its compliance with applicable laws and regulations as a Federal entity. The following are key mandates that the Council will face in fiscal year 2017.

#### Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act requires Federal agencies and entities receiving Federal funds to report spending data in accordance with new data standards established by the Department of the Treasury (Treasury) and OMB by May 2017. Inspectors General of each Federal agency are required by the act to perform three biennial reviews of a statistically valid sample of spending data submitted by its agency and the implementation of data standards by the agency. Given an anomaly identified in the law, the first report was extended from November 2016 to November 2017. In the meantime, the Inspector General community was encouraged to perform "readiness reviews" of their respective agencies.

The Council recently installed its newly developed grants management system, RAAMS, to process its application and award information. The Council has also contracted with the Treasury's Bureau of the Fiscal Service's Administrative Resource Center (ARC), for financial management services. ARC's services include, among other things, processing award files from the Council's grants management system and processing and reporting financial data. ARC also provides the DATA Act reporting solution which will collect, map, transform, validate, and submit agency data into a format consistent with Treasury's proposed DATA Act information model schema. Because the Council's grants interface and ARC's DATA Act reporting solution are both new, and have not been fully tested, we believe that Council officials are challenged with ensuring timely and accurate reporting under the new DATA Act standards.

#### Improper Payments Elimination and Recovery Act of 2010 (IPERA)

IPERA requires that the head of the agency or Federal entity to periodically review all programs and activities that are administered and identify all programs and activities that may be susceptible to significant improper payments. The Council faces expanded risk to screening for improper payments as RAAMS is still a newly operational grants system and the

Council has only recently funded its first grants and agreements. However, we believe that detecting improper payments will become more difficult in the future as funds begin to flow.

Although the challenges highlighted in this letter are the most serious from my office's perspective, we communicate regularly with the Council's leadership on existing and emerging issues. In addition, we remain actively engaged with affected Federal, State, and local government entities to ensure effective oversight of programs established by the RESTORE Act. Now that grants are being awarded, the disbursements and use of funds will be the central focus of our work going forward.

We would be pleased to discuss our views on the management and performance challenges and the other matters expressed in this letter in more detail.

Sincerely,

/s/

Eric M. Thorson  
Inspector General, Department of the Treasury

cc: Robert Bonnie, Chairperson Designee  
Justin Ehrenwerth, Executive Director



## Gulf Coast Ecosystem Restoration Council

November 15, 2016

Eric M. Thorson  
Inspector General, U.S. Department of the Treasury  
Washington, DC 20022

Re: Response to the OIG Report, 2016 Management and Performance Challenges (OIG-CA-17-004)

Dear Inspector General Thorson,

Thank you for the opportunity to review the Office of Inspector General's (OIG) report 2016 Management and Performance Challenges (OIG-CA-17-004). As you have pointed out, the Council is still a relatively new Federal entity with many responsibilities under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). We concur that the major challenges faced by the Council are to stand up the operating framework and infrastructure to administer Gulf Coast restoration activities; to further develop stakeholder coordination and outreach; and to ensure compliance with applicable laws and regulations as a Federal entity.

We appreciate your recognition of the Council's accomplishments to include approving the Funded Priorities List, the Spill Impact Final Rule, and the implementation of RAAMS. We also agree that there is still work to be done to complete the Council's organizational infrastructure, and that there is a need for additional specialized staff.

*Challenge 1: Implementing an Infrastructure to Administer Gulf Coast Restoration Activities*

The Council completed its initial enterprise-wide risk assessment in June 2016. We recognized that this is just the first step in meeting the requirements of OMB Circular A-123, and have actively been recruiting for a Deputy CFO since May of 2016 to manage and implement an Enterprise Risk Management (ERM) capability to integrate strategic planning and review processes established by the Performance and Results Modernization Act, and internal control processes required by the Federal Managers' Financial Integrity Act and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book). We agree that although the Council is not a large entity, ERM implementation will require close collaboration across all affected parties in order to meet the June 2017 deadline for completing its initial risk profile and accordingly are in the process of recruiting a dedicated staff person to achieve these objectives.

*Challenge 2 Stakeholder and Coordination and Outreach:*

The Council agrees that its responsibilities for funding the economic and environmental restoration of the Gulf Coast requires transparency and effective communication and coordination with our partners, including not just Federal, State and local governments but also with the many non-profit entities focused on a healthy and sustainable gulf-wide ecosystem. We want to ensure that we conduct restoration projects efficiently, do not duplicate funding on proposed activities, and most importantly that we leverage the restoration activities of others. The draft Comprehensive Plan Update includes a commitment to engagement, inclusion and transparency and an initiative to sponsor and participate in coordination meetings among members and restoration partners (e.g., National Resource Damage Assessment Trustees and National Fish and Wildlife Foundation).

*Challenge 3 Federal Statutory and Regulatory Compliance:*

The Council agrees and is fully cognizant of the many challenges it faces with ensuring timely and accurate reporting under the DATA Act. The Council was mindful of the data requirements under the DATA act throughout the RAAMS system development and implementation and has successfully formatted RAAMS data for transmission through the new Award Submission Portal. Likewise, we are working in concert with ARC in order to begin testing data submissions and data integration of the files ARC submits and the data submitted by RAAMS.

While the Council has had a very small dollar amount of payments that could result in improper payments, it agrees that as grants are awarded and funds begin to flow, it will become much more susceptible to significant improper payments. The Council is very focused on including processes and procedures in its grants management program to screen for and prevent improper payments, and have recognized this issue within several of the top risks in its enterprise risk assessment.

We appreciate the ongoing cooperation and support we receive from your staff. Their expertise has been invaluable and will be particularly important as we continue to fund projects. We look forward to working with you to address the challenges identified in this 2016 Management and Performance Challenges report.

Sincerely,



Justin R. Ehrenwerth  
Executive Director  
Gulf Coast Ecosystem Restoration Council

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables show that there were no material weaknesses or significant deficiencies in fiscal year 2016. The significant deficiency identified in fiscal year 2015 was resolved in fiscal year 2016. This information is consistent with the Council's FMFIA Statement of Assurance.

Table 19 – Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	NA	0

Table 20 – Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA - § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	NA	NA	0
Effectiveness of Internal Control over Operations (FMFIA - § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	NA	NA	NA	0
Conformance with Financial Management System Requirements (FMFIA - § 4)						
Statement of Assurance	Conform					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Non-Conformances</i>	0	0	NA	NA	NA	0

## **IMPROPER PAYMENTS**

### **Background**

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Pub. L. 111-204, 31 U.S.C. 3301 *note*) as amended, requires agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments, take multiple actions when programs and activities are identified as susceptible to significant improper payments, and annually report information on their improper payments monitoring and minimization efforts. Office of Management and Budget (OMB) M-15-02, Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments, provides guidance to agencies to comply with IPERA and for agency improper payments remediation efforts. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements.

#### **I. Risk Assessment**

During fiscal year 2016, the Council did not have any programs or activities which qualifies as susceptible to significant improper payments in the current fiscal year, i.e., total program and activity expenditures were less than the threshold and reporting requirements for “significant improper payments” set forth in Appendix C. However, the grants management program is high risk for significant improper payments in future periods.

#### **Programs of the Council Assessed for Risk**

1. Council-Selected Projects and Programs, including expenses to administer
2. Oil Spill Impact Program

During fiscal year 2016, the Council commenced both of its grant programs which will be susceptible to improper payments in the future, however total Council program and activity expenditures were less than the threshold and reporting requirements for “significant improper payments” set forth in Appendix C. The Council made less than three million dollars in non-federal disbursements, and realized an improper payment rate of .07% - less than one tenth of one percent.

#### **II. Sampling and Estimation**

1. Council-Selected Projects and Programs, Council expenditures for non-Federal persons, non-federal entities and federal employees were \$2,781,938 in fiscal

year 2016. Of those disbursements, 83% were for salary, benefits and travel reimbursements to Council employees (\$2,303,042) and 17% (\$478,896) were payments to five commercial vendors. The Council awarded one grant, but made no disbursements to the recipient. Improper payments totaled \$2,023 – a rate of just .07%.

2. Spill Impact Program. The Council awarded two grants but made only one grant disbursement of \$170,953. Since this payment was to a high-risk recipient, the risk protocol required the submission of all supporting documentation prior to approval of the payment, thus providing a 100% review.

### III. Improper Payment Reporting

Table 21  
Improper Payment Reduction Outlook  
(\$ in thousands)

Program or Activity	PY Outlays	PY IP%	PY IP\$	CY Outlays	CY IP%	CY IP\$	CY Overpayment \$	CY Underpayment \$	CY + 1 Est Outlays	CY + 1 Est. IP%	CY + 1 Est IP\$	CY + 2 Est Outlays	CY + 2 Est IP%	CY + 2 Est IP \$	CY + 3 Est Outlays	CY + 3 Est IP%	CY + 3 IP \$
Council Selected Projects	2.1	0	0	2.8	0.07%	0.002	0.002	0	29.5	0.07%	0.02	41.0	0.07%	0.03	38.2	0.07%	0.03
Spill Impact	0	0	0	0.2	0	0	0	0	44.1	0.07%	0.03	62.1	0.07%	0.04	67.9	0.07%	0.05
Total	2.1	0	0	3	0.07%	0.002	0.002	0	73.6	0.14%	0.05	103.1	0.14%	0.07	106.1	0.14%	0.07

#### IV. Improper Payment Root Cause Categories

Table 22  
Improper Payment Reduction Outlook  
(\$ in thousands)

Reason for Improper Payment	Council-Selected Projects and Programs		Oil Spill Impact Program	
	Overpayments	Underpayments	Overpayments	Underpayments
Administrative Or Process Error	2	0	0	0

#### V. Improper Payment Corrective Actions

The Council implemented additional controls over travel and human resources management.

#### VI. Internal Control Over Payments

The Council reviewed its programs and activities and has undertaken the following cost-effective program of internal controls to identify, prevent, and detect improper payments that ensures the greatest financial benefit for the government.

With respect to Council expenditures generally, the Department of the Treasury (Treasury) Fiscal Services Vendor Supplier Group (VSG) submits a file of active vendors on a daily basis through the Do Not Pay Business Center's Continuous Monitoring system. The results are received the following day and any matches are reviewed, including matches from the Social Security Administration (SSA) Death Master File and/or the System for Award Management (SAM) Excluded Party List System (EPLS). Matches from the SSA Death Master File are end-dated in the Oracle accounting system and the Travel Office is notified so that the travel record can be end dated in the Concur Government Edition travel system as well. When hits are identified for EPLS, the information is provided to the appropriate Treasury customer care branch for research. As a result of a match, the matched vendor will then be flagged as an active exclusion in SAM. The Treasury customer care branch consults with the Council to determine how to proceed. Options may include deactivating the vendor, de-obligating all open orders with the vendor, recovering payments made to the vendor, or the like.

With respect to Council grant recipients and subrecipients, the Council has developed a detailed monitoring protocol. The protocol requires that all high-risk grant recipients will have every request for reimbursement manually reviewed, along with copies of all paid invoices, in addition to furnishing semi-annual financial reporting to the Council. However, the Council expects to make only a limited number of grant payments during fiscal year 2017. The protocol also requires the Council to reconcile recipient semi-annual reports to their cash draws and cash drawdown projections, and includes a requirement to review random selections of payment invoices. Additionally, the Council will review recipients' time & attendance and labor hour reporting systems and associated payrolls and other supporting material (e.g., invoices and receipts) as part of the semi-annual financial reviews, desk audits and site visits.

VII. Accountability

Not applicable.

VIII. Agency Information Systems and Other Infrastructure

Not applicable.

IX. Barriers

None.

X. Recapture of Improper Payments Reporting

a. Payment Recapture Audits Narrative

In accordance with Appendix C the Council determined that it would be unable to conduct a cost-effective payment recapture audit program for Council programs and activities with respect to fiscal year 2016. In fiscal year 2016 the Council had program costs only for (i) developing a Funded Priorities List, (ii) completing the Spill Impact Component Rule, (iii) approving Planning SEPs and (iv) awarding three grants and one IAA as described below, all to help restore the ecosystem and economy of the Gulf Coast region, and had only one payment under these programs. Since the recipient was determined to be high-risk, all supporting documentation for the payment was required to be submitted and was reviewed before approval of the payment. Additionally, the Council had a limited number of contractors, and supporting documentation for all contractual payments was required and reviewed before approval. Likewise, payroll disbursements are reviewed every pay period and travel vouchers are routinely audited by the ARC travel branch.

The remaining universe of payments are too small to warrant the expense of a recapture audit.

b. Programs Excluded from the Payment Recapture Audit Program

(1) Council-Selected Restoration Projects and Programs

(2) Oil Spill Impact Program

c. Payment Recapture Audit Reporting

Table 23  
Overpayment Payment Recaptures with and without Recapture Audit Programs  
(\$ in thousands)

		Overpayments Recaptured Through Payment Recapture Audits																										Overpayment Recaptured Outside of Payment Recapture Audits		
		Contracts					Grants					Benefits					Loans					Other					Total			
Program or Activity		Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Council Selected Programs		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2	2
Oil Spill Impact		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0	
TOTAL		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2	2	

Table 24  
Disposition of Funds Recaptured Through Payment Recapture Audit Programs  
(\$ in thousands)

Program or Activity	Amount Recaptured	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
Council Selected Programs	NA	NA	NA	NA	NA	2	NA	NA	NA
Oil Spill Impact	NA	NA	NA	NA	NA	0	NA	NA	NA
TOTAL	NA	NA	NA	NA	NA	2	NA	NA	NA

d. Overpayments Recaptured Outside of Payment Recapture Audits  
Not applicable

e. Payment Recapture Audit Program Targets  
Not applicable

XI. Additional Comments

The Council makes use of all Do Not Pay databases and is implementing a robust internal control and risk management process in all of their business processes in order to prevent improper payments.

XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Treasury VSG submits a file of active vendors on a daily basis through the Do Not Pay Business Center's Continuous Monitoring system. The results are received the following day and any matches are reviewed, including matches from the Social Security Administration (SSA) Death Master File and/or the System for Award Management (SAM) Excluded Party List System (EPLS). Matches from the SSA Death Master File are end-dated in the Oracle accounting system and the Travel Office is notified so that the travel record can be end dated in the Concur Government Edition travel system as well.

Table 25  
Results of the Do Not Pay Initiative in Preventing Improper Payments  
(in thousands)

	Number of Payments reviewed for possible improper payments	Dollars (\$) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars (\$) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	556	\$722,799	0	0	556	\$722,799
Reviews with databases not listed in IPERIA as Do Not Pay Databases	0	0	0	0	0	0

## **FREEZE THE FOOTPRINT**

As a new agency established by the RESTORE Act, the Council had no fiscal year 2012 baseline office or warehouse space. The Council entered into an occupancy agreement (lease) for office space in September 2014. The Council has staff assigned to and working from this office space, while other staff members work remotely from home offices or parent agency offices, throughout the Gulf Coast, thereby minimizing the amount of square footage required for office space and minimizing the footprint of the Council.